

Werribee Irrigation Futures Project for Southern Rural Water, December 2009

Phillips Agribusiness conducted detailed financial analysis for the 2008-2009 season on a small number of farms in the Werribee South and Bacchus Marsh districts. The purpose of the investigation was to measure the profitability of farming operations and to determine what impact rising water costs had on farm viability. A summary of the study and its conclusions is as follows:

- The profitability of Werribee South vegetable farming operations is dependent on developing a farming system that specializes in summer and winter cropping at a high level of intensity. Based on the output derived from the farm survey, an economic model was constructed to represent district practice at a higher than average level of managerial efficiency. The model allows farm inputs to be adjusted so that their impact on farm profitability can be assessed.
- Under a assumed set of operating conditions with the cost of water set at \$350/ML, a farm profit of 4.8% on total capital is realized. Adjusting the cost of water upwards reduces and eventually eliminates farm profit. The inherent variability that is contained within the market gardening industry requires that good profits need to be made in some years to compensate for the losses that some bad years will inevitably bring. High cost water eliminates that opportunity.
- The Bacchus Marsh district is significantly different to Werribee South where specialised market gardening and fruit growing are its major rural industries. Horticulture is quite profitable where there is no constraint of land, water and capital. High margin enterprises such as loose leaf lettuce production are contract dependent and cannot afford to have any disruptions to supply. Reliability of water supply is of greater concern than its price. For the lower margin enterprises in both the market gardening and fruit sectors, both water supply and price are critical elements. Price thresholds are likely to be similar to those of Werribee South.